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Message Text

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PAGE 01 OECD P 04891 01 OF 02 251944Z

63
ACTION EUR-08

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O 251859Z FEB 75
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TO SECSTATE WASH DC IMMEDIATE 5599

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FOR UNDER SECRETARY ROBINSON

E.O. 11652: N/A
TAGS: ETRD, OECD
SUBJECT: INITIATING HIGH LEVEL OECD WORK ON COMMODITIES

REF: A. OECD PARIS 2812
B. OECD PARIS 4619

1. SUMMARY: IN LINE WITH OUR DISCUSSIONS WITH UNDER SECRETARY ROBINSON FEB. 21-22, AND, IN VIEW OF POSITIVE EXCHANGE ON COMMODITIES PROBLEM AT FEB. 20 XCSS RESTRICTED GROUP MEETING, MISSION RECOMMENDS US FOLLOW UP WITH PROPOSAL FOR EXPERT GROUP TO STUDY INTERDISCIPLINARY NATURE OF COMMODITIES PROBLEMS AT MARCH 11-12 XCSS MEETINGS AND SUGGESTS DEPARTMENT ASK POSTS IN OECD COUNTRIES TO EXPLORE IDEA WITH HOST GOVERNMENT OFFICIALS BEFORE THEN. END SUMMARY.

2. IN OUR DISCUSSIONS WITH UNDER SECRETARY ROBINSON AFTER FEB. 20 XCSS RESTRICTED GROUP MEETING, WE SUGGESTED THAT MOST EFFECTIVE WAY TO BEGIN HIGH-LEVEL OECD CONSIDERATION OF COMMODITIES ISSUES WOULD BE TO HAVE
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PAGE 02 OECD P 04891 01 OF 02 251944Z

XCSS ESTABLISH AD HOC EXPERT GROUP ANALOGOUS TO THAT SET

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

UP TO STUDY INVESTMENT ISSUES. IF THIS PROPOSAL IS TO BE ACCEPTED, US WILL NEED TO MARSHALL SUPPORT OF OTHER OECD MEMBERS BEFORE MARCH 10-12 XCSS MEETINGS. WE THEREFORE RECOMMEND OUR EMBASSIES IN OECD CAPITALS BE INSTRUCTED TO PRESENT US IDEA TO APPROPRIATE HOST COUNTRY OFFICIALS AT EARLIEST POSSIBLE DATE. MISSION SUGGESTS US TAKE FOLLOWING LINE WITH OTHER MEMBER GOVERNMENTS:

A. THREE KEY DIMENSIONS OF COMMODITY PROBLEM PROVIDE GOOD BASIS FOR INITIATING HIGH-LEVEL ANALYTICAL WORK IN OECD. FIRST, THERE IS POSSIBILITY THAT BOOM AND BUST CYCLES FOR IMPORTANT COMMODITIES MAY BE GROWING IN MAGNITUDE, CAUSING INCREASING AMOUNT OF GENERAL ECONOMIC DISRUPTION. IN PARTICULAR THERE IS DANGER THAT INSUFFICIENT INVESTMENT WILL BE FORTHCOMING TO PREVENT SHORTAGES AND RENEWED PRICE RISES, WITH INFLATIONARY IMPACT, WHEN WORLD ECONOMY BEGINS UPTURN AGAIN. SECOND' THERE IS REASON TO FEAR CURRENT COMMODITY DECLINE WILL, IN FACE OF CONTINUED INFLATION IN PRICES OF MANUFACTURED GOODS, HAVE SEVERE ADVERSE EFFECT ON DEVELOPMENT PROSPECTS OF LDC'S AND PUSH THEM IN EVEN MORE RADICAL DIRECTIONS THAN THEY ARE ALREADY INCLINED TO GO. (LATEST OECD ECONOMIC PROSPECTS ESTIMATES PREDICT FALL IN PRICE OF NON-OIL COMMODITIES BY 4 PERCENT IN 1975, WHILE PRICE OF MANUFACTURES MAY RISE BY 19 PERCENT.) THIRD, CLOSELY RELATED TO LAST DIMENSION IS POTENTIAL FOR UNIFICATION OF LDC WORLD BEHIND OIL PRODUCERS' BANNER UNDER SLOGAN OF "COMMODITY POWER," WHICH COULD RESULT IN HIGHLY UNDESIRABLE POLARIZATION OF WORLD ECONOMY.

B. CONSTRUCTIVE REASPONSE TO THIS MULTIDIMENSIONAL PROBLEM WILL INVOLVE WIDE RANGE OF INTERRELATED ISSUES. IN ADDITION TO TRADITIONAL ISSUES OF INTERNATIONAL TRADE (ACCESS TO MARKETS, ACCESS TO SUPPLIES, PRICE STABILITY, ETC.), MORE WORK SHOULD ALSO BE DONE ON QUESTION OF MANAGING DISPUTES OVER EXISTING INVESTMENTS AND TREATMENT AND BEHAVIOR OF MNC'S. VERY IMPORTANT AREA FOR STUDY IN LONGER TERM IS HOW TO ESTABLISH NEW MECHANISMS TO ASSURE REGULAR FLOW OF FINANCE, TECHNOLOGY, AND MANAGEMENT FOR LIMITED OFFICIAL USE

NEEDED NEW INVESTMENT IN RAW MATERIALS PRODUCTION. CONDITIONS OF TRADE AND MARKET STABILITY HAVE IMPORTANT BEARING ON INCENTIVES FOR NEW INVESTMENT, AS DO AVAILABILITY OF FINANCE, MANAGEMENT AND TECHNOLOGY, AND INVESTMENT SECURITY. IN TURN NEW INVESTMENT IS MAJOR LONG-TERM DETERMINANT OF SUPPLIES AND PRICES OF COMMODITIES AVAILABLE FOR TRADE.

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

C. US CONSIDERS THAT OECD TRADE COMMITTEE HAS DONE VERY USEFUL WORK DURING RECENT MONTHS IN IDENTIFYING KEY AREAS OF MEMBERS' CONCERN AND INCREASING UNDERSTANDING

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PAGE 01 OECD P 04891 02 OF 02 251937Z

63
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OF BASIC ISSUES UNDERLYING COMMODITY PROBLEMS. IT HAS ALSO SERVED WELL AS A FORUM FOR EXCHANGING VIEWS AND CO-ORDINATING OECD MEMBERS' APPROACH TOWARD THE COMMODITY PROPOSALS PUT FORWARD BY UNCTAD. WE EXPECT THIS WORK ON THE COMMERCIAL POLICY ASPECTS OF COMMODITY PROBLEMS TO CONTINUE, BUT IT IS CLEAR THAT THESE PROBLEMS GO BEYOND TRADE ASPECTS AND WORK SHOULD ALSO BE UNDERTAKEN IN A FORUM WITH A BROADER PERSPECTIVE.

D. XCSS, BY VIRTUE OF ITS FLEXIBILITY AND BROAD RANGE OF CONCERNS, IS NATURAL PLACE TO ATTEMPT TO INTEGRATE NUMBER OF TRADE, INVESTMENT, AND DEVELOP-MENT ASPECTS INTO UNIFIED ANALYSIS OF COMMODITY PROBLEMS. US REP TO XCSS, UNDER SECRETARY ROBINSON, WILL THEREFORE ADDRESS ISSUES RAISED ABOVE IN GREATER DETAIL AT MARCH 11-12 MEETING, UNDER FIRST AGENDA ITEM, GENERAL REVIEW OF ECONOMIC SITUATION.

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

E. WE BELIEVE THE MOST EFFECTIVE WAY TO STRUCTURE COMMODITIES WORK WOULD BE TO HAVE THE XCSS ESTABLISH AN AD HOC EXPERT LEVEL GROUP TO CARRY IT OUT. THIS COULD BE SIMILAR TO THE XCSS EXPERT GROUP CREATED TO WORK ON INVESTMENT ISSUES. IN THE CASE OF COMMODITY PROBLEMS,
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PAGE 02 OECD P 04891 02 OF 02 251937Z

THE ARRANGEMENT WOULD HAVE TO BE FLEXIBLE ENOUGH TO ALLOW TWO OR MORE EXPERTS FROM EACH COUNTRY TO ATTEND, SINCE IT WOULD BE RARE TO FIND EXPERTISE IN TRADE, INVESTMENT AND DEVELOPMENT MATTERS COMBINED IN ONE OFFICIAL. SUPPORT FOR THE ACTIVITIES OF THE EXPERTS' GROUP COULD BE PROVIDED BY AD HOC INTERDISCIPLINARY TASK FORCE DRAWN FROM RELEVANT AREAS OF SECRETARIAT, SUCH AS GENERAL ECONOMIC QUESTIONS DIVISION, AND DEVELOPMENT, TRADE, AND FINANCE DIRECTORATES.

F. US WOULD HOPE THAT XCSS AT MARCH MEETING WILL AGREE TO ESTABLISH SUCH AN AD HOC MECHANISM TO PERFORM ANALYTICAL WORK ON COMMODITY PROBLEMS AND INCLUDE CONSTRUCTIVE DISCUSSION OF PRECISE TASKS TO WHICH EXPERTS GROUP COULD ADDRESS ITSELF AS FIRST PRIORITY.

4. IN MAKING REPRESENTATIONS, EMBASSIES WOULD HAVE TO BE CAREFUL TO APPROACH HOST GOVERNMENT AT HIGH ENOUGH LEVEL (E.G. XCSS REP HIMSELF) TO ENSURE THAT BROAD PERSPECTIVE, INCLUDING BOTH TRADE AND INVESTMENT ISSUES, IS OBTAINED. AS MOST GOVERNMENT BUREAUCRACIES DISTINGUISH SHARPLY BETWEEN INVESTMENT AND TRADE ISSUES AND OFTEN BETWEEN GENERAL TRADE AND COMMODITY ISSUES, WE ANTICIPATE A CERTAIN DEGREE OF INTERNAL INNOVATION MAY BE NECESSARY WITHIN GOVERNMENTS TO ADDRESS COMMODITY PROBLEMS IN INTEGRATED FASHION. IN ADDITION, POSTS WOULD HAVE TO BE CAREFUL NOT TO REFER TO XCSS "RESTRICTED GROUP" MEETINGS OR TO REF B WHEN DISCUSSING MATTER WITH OFFICIALS OF COUNTRIES NOT BELONGING TO RESTRICTED GROUP (I.E. COUNTRIES OTHER THAN SWITZERLAND, CANADA, EC COMMISSION, FRANCE, GERMANY, ITALY, JAPAN, AND UK).
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EO Systematic Review
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